

# Cotton Outlook

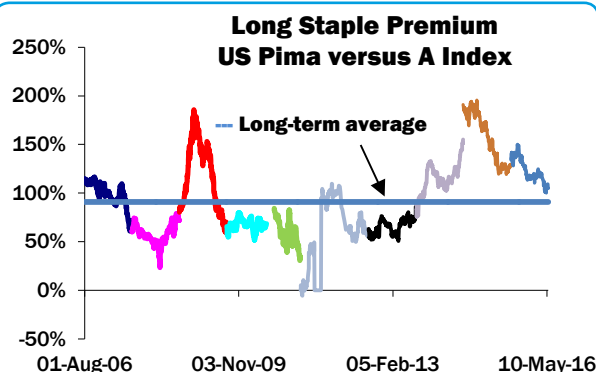
## Long Staple

## UPDATE

May 2016

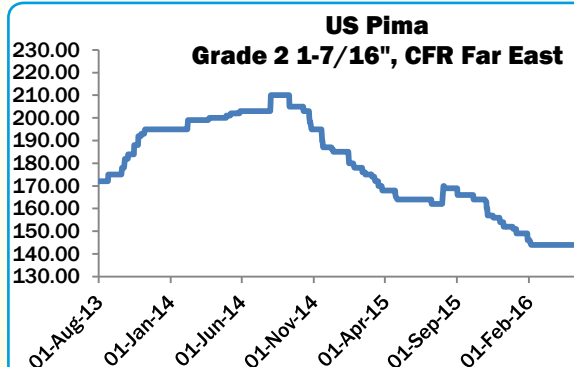
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The purpose of this update on the long staple market is to provide a foretaste of the contents of our more comprehensive annual Long Staple Special Feature, to be published in hard copy in August. Its timing allows us to offer some early insights into the outlook for the supply and demand outlook for 2016/17, now that sowing is under way or complete in the major long staple producing countries.



### 2015/16 Marketing Year

The retreat of long staple prices in evidence for well over eighteen months has continued during the 2015/16 marketing year. Our benchmark quotation for American Pima Grade 2 1-7/16" fell progressively from a high point of 210.00 cents per lb, CFR Far East, in August and early September 2014, to its current level of 144.00 cents per lb.



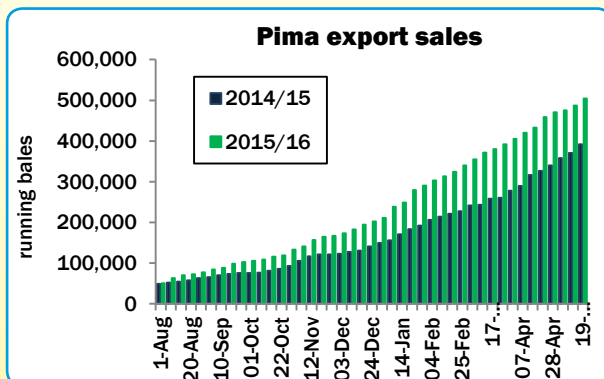
Since upland values have remained within a relatively narrow trading range over much of the period in question, long staple values have also cheapened in relation to the upland market. The long staple premium – calculated by comparing our US Pima quotation with the Cotlook A Index – currently stands at 105 percent, still above the long-term average premium of nearly 91 percent.

The steadier appearance of US Pima prices over the past few months has coincided with a period of more active export sales. Weekly Pima export sales registra-

tions since the turn of the year have averaged just over 15,000 running bales, compared with 7,300 between the beginning of August and the end of December.

By May 19, the 2015/16 season's cumulative sales amounted to 504,000 running bales (say, 114,000 tonnes). The total is over 112,000 bales, or 29 percent, ahead of the corresponding figure at the same point of the previous campaign, and already greater than USDA's latest export projection for the season (500,000 statistical bales of 480 lbs). Should sales continue to proceed at anything close to the recent pace, therefore, significant inroads will be made into the season's ending stocks, projected by Washington at 170,000 bales (480 lbs).

Sales to China by the date in question were nearly 18 percent below those a year earlier, but all other major destinations showed an increase, including most notably the second largest market, India, commitments to which had more than doubled. Pakistan showed only modestly less impres-



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sive growth of 90 percent, and a sharp increase was also attributed to Turkey.

In Egypt, by contrast, the pace of export registrations has throughout most of the season been well behind that recorded in 2014/15. By May 28, 26,219 tonnes had been committed for export, of which 18,316 had been shipped.

Quality issues have been well to the fore (a significant part of the export business is understood to have involved Giza 86 from the 2014/15 crop). As a result, the price indications that have accompanied the export data reported weekly by the exporters' association, ALCOTEXA, have shown wide variations.

For spinners in various import markets, Turkmen long staples have provided a timely source of supply. Availability has been influenced by adjustments to marketing policy at the origin, where a sizeable backlog of uncommitted supplies from previous crops, comprising both upland and long staple cotton, had been allowed to accumulate.

By dint of obliging international buyers purchasing current crop upland cotton also to take some old crop long staples, the marketing authorities have succeeded in forcing the latter into trade hands, for subsequent sale to fine count spinners. Export sales from origin since last August are estimated at more than 38,000 tonnes, including some 26,000 from crops prior to 2015/16. By early May, the quantity still uncommitted at origin was placed at about 5,000 tonnes.

Domestic prices in China have continued to replicate the decline in international values, but the trend has been driven principally by a local oversupply situation. During the 2015/16 season, the decline of Xinjiang long staple prices has been persistent, but most precipitous during October and November, presumably as a result of harvest-time financial pressures. By mid-May, the benchmark Type 137 value had fallen to 21,700 yuan per tonne (just over 153.00

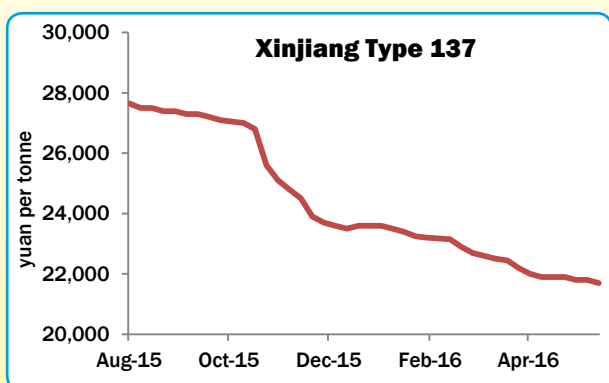
US cents per lb), a decline approaching 22 percent. Despite the erosion of local market values and the aforementioned oversupply, the export marketing of surpluses, mooted at the start of the season as a possibility in some quarter, and potentially a bearish factor for world long staple values, has not materialised.

## Outlook for 2016/17

As sowing of crops in the Northern Hemisphere advances, contrasting fortunes are in evidence with regard to the prospects for long staple production in the US Far West and Egypt.

In the former producing region, the winter and spring of 2015/16 have been characterised by significant precipitation: both rainfall to replenish the badly-depleted reservoirs, and snow to boost the Sierra Nevada snowpack, from which run-off is also an important contributor to water supplies available for irrigation. The United States Department of Agriculture's May supply and demand figures indicate Pima plantings at 215,000 acres, an increase of 35 percent from the previous season, and place output at 635,000 bales (480 lbs), versus 433,000 produced from the 2015/16 crop.

In Egypt, sowing of the 2016/17 crop has made slow progress. By May 28, the area planted was estimated at 117,408 feddan, well below the 247,000 feddan planted by the same point of last season. Lack of availability of 'fundamental' planting seed has been cited as a difficulty in some areas. Whereas an understanding had been reached



World LS Output (tonnes)					2016/17 v
	2013/14	2014/15	2015/16	2016/17	2015/16
<b>United States</b>	138,037	128,022	98,194	141,500	44%
<b>Egypt</b>	86,904	102,117	48,000	33,000	-31%
<b>of which:</b>					
<b>ELS</b>	4,762	3,631	2,000	1,000	-50%
<b>Giza 86</b>	82,142	98,486	46,000	32,000	-30%
<b>Sudan</b>	857	-	450	1,000	122%
<b>Uzbekistan</b>	1,500	1,000	1,000	1,000	0%
<b>Tajikistan</b>	700	500	500	750	50%
<b>Turkmenistan</b>	17,415	19,726	20,000	20,000	0%
<b>India</b>	75,000	88,400	94,350	90,000	-5%
<b>Peru</b>	6,000	4,500	12,500	12,000	-4%
<b>China</b>	35,000	70,000	100,000	105,000	5%
<b>Israel</b>	11,000	14,000	16,000	13,000	-19%
<b>Spain</b>	1,820	5,000	4,850	5,350	10%
<b>Australia</b>	-	-	-	-	
<b>Total</b>	<b>374,234</b>	<b>433,265</b>	<b>395,844</b>	<b>422,600</b>	<b>7%</b>



between the government and industry stakeholders that some 250,500 feddan (about 105,000 hectares) would be an appropriate objective for the season, it already appears clear that the area sown will fall well short of that figure, though by how great a margin remains to be seen.

In China, recent reports from Xinjiang's long staple growing areas have indicated continued enthusiasm for long staple cultivation, principally as a result of the provisions of the region's target price system, which enshrine a premium for long staple production. However, the authorities, aware of the oversupply that has developed in this sector of the market, have been endeavouring to bring about a reduction of plantings.

Even if such a contraction of area is achieved, however, output may still register an increase from that attained in 2015/16, if yields recover from the downturn suffered last season. It will be recalled that the exceptionally high temperatures prevailing last summer had an adverse effect on both upland and long staple yields across the region.

In India, the impression gained is that, despite the domestic deficit of long staple supply, production continues to stagnate. The better returns obtainable from higher-yielding upland styles continue to suggest that long staple output will, at best, be maintained. Some observers anticipate a modest decline.

In Israel too, a modest reduction in output would seem to be in prospect, as producers respond to the progressive decline of international prices described above.

Turkmenistan remains the only significant long staple producer in Central Asia. Output here is expected to be maintained. In Uzbekistan and Tajikistan, production has dwindled to very meagre proportions in recent seasons, though some reports indicate the possibility of recovery in 2016/17, in the latter country.

On the demand side of the market, reports from various markets betray little conviction that a major change in the pattern of mill consumption is foreseeable next season. The relative cheapening of fine count cottons, relative to the upland market, should help to sustain mill use. As has been the case for some time, several markets note the preference of spinners to incorporate longer staple upland cottons in their fine count yarn blends.

Incremental increases may be achieved in various markets but the global total shows a net decrease, owing to the prospect of a significant reduction of consumption by Egypt's spinners, on the grounds that the local supply will not be available from a much diminished carryover, and a 2016/17 crop that will set a new low in modern times.

World LS Consumption (tonnes)					
	2013/14	2014/15	2015/16	2016/17	2016/17 v 2015/16
<b>Americas</b>					
<b>United States</b>	5,008	5,443	5,443	5,443	0%
<b>Mexico</b>	600	650	650	650	0%
<b>Peru</b>	12,000	13,000	13,000	13,000	0%
<b>Europe</b>					
<b>Italy</b>	3,000	3,000	3,000	3,000	0%
<b>Switzerland</b>	2,000	2,000	2,000	2,000	0%
<b>Germany</b>	5,000	4,500	5,000	5,000	0%
<b>Turkey</b>	17,000	11,000	12,000	13,000	8%
<b>Portugal</b>	500	800	2,000	2,000	0%
<b>Asia</b>					
<b>China</b>	125,000	120,000	120,000	125,000	4%
<b>India</b>	130,000	130,000	140,000	140,000	0%
<b>Pakistan</b>	25,000	30,000	32,000	35,000	9%
<b>Indonesia</b>	7,200	4,000	5,000	5,300	6%
<b>Japan</b>	3,800	4,500	4,000	4,000	0%
<b>South Korea</b>	2,800	2,600	2,600	2,500	-4%
<b>Bangladesh</b>	11,500	12,000	11,000	11,000	0%
<b>Thailand</b>	5,200	5,000	4,000	4,000	0%
<b>Taiwan</b>	800	1,600	1,000	1,500	50%
<b>Turkmenistan</b>	500	500	500	500	0%
<b>Hong Kong</b>					
<b>Africa</b>					
<b>Egypt (ELS + G86 )</b>	34,672	49,800	50,000	35,000	-30%
<b>Others</b>	4,500	4,500	4,500	4,800	7%
<b>Total</b>	<b>396,080</b>	<b>404,893</b>	<b>417,693</b>	<b>412,693</b>	<b>-1%</b>

## World supply and demand

At this early stage, our initial forecast of world production and consumption suggest a market broadly in balance during the season ahead. However, the substantially lower beginning stocks estimated for the United States, Egypt and Turkmenistan may prove of significance as the new season progresses, especially if any major crop setbacks are encountered, or if consumption by fine count spinners expands more robustly than our current figures imply.

# Cotton Outlook Special Feature

## World Long Staple Market

### - annual review 2016 -

**USA... Egypt... China... India... Sudan...**

**Turkmenistan... Israel... Peru... Spain...**

#### **A targeted audience**

World long staple production amounts to several hundred thousand tonnes per year, among a handful of producers, but its quality characteristics and comparatively high value single out the segment as deserving special attention. Over the past couple of decades, Cotton Outlook has been publishing an Annual Long Staple Review, supplemented by regular updates.

A period of price weakness during the early part of the 2015/16 season has more recently given way to more stable market conditions, as demand for both US Pima and Egyptian Giza 86 has shown signs of improvement. As farmers weigh their options for 2016/17, there seems reason to believe that long staple area will recover. In the United States, rainfall over the past few months has alleviated the acute drought that had affected California, with the result that Pima plantings are forecast to increase. Following the Egyptian government's announcement of its decision not to subsidise cotton, Egypt last year planted cotton on the smallest area of recent times. Optimism seems to be mounting that 2016/17 will see a recovery in output there too. As sowing takes place in China's Xinjiang region, the area that farmers will devote to long staples appears uncertain. The authorities are seeking to curtail plantings on supply and demand considerations, but farmers have enjoyed good returns and may be reluctant to comply.

Our 2016 World Long Staple Review, due for publication in July/August, will review the production outlook in the light of up-to-date information from these important producing countries, weigh the prospects for the demand side of the market and identify the influences that will affect the future behaviour of prices.

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